TOP BANK HOLDERS OF CMOS

Top 100 Banks in Collateralized Mortgage Obligation Holdings

Holdings of CMO's, including REMICS, issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation

(All data are as of March 31, 1990, and dollar amounts are in thousands)

Rank 3/90		Collateralized Mortgage Obligations	Mortgage Backed Securities	CMO's plus Mortgage Backs	Total Securities	Total Assets	CMO's as a % of Securities	CMO's as a % of Assets	Mtge. Backs as a % of Assets	CMOs & M-Backs as a % of Assets
1	Pittsburgh National Bank	2,015,770	3,709,209	5,724,979	6,762,202	17,356,333	29.81	11.61	21.37	32.98
2	Manufacturers Hanover Trust Co., New York	1,173,000	1,238,000	2,411,000	6,888,000	53,743,000	17.03	2.18	2.30	4.49
3	Morgan Guaranty Trust Co., New York	1,104,428	3,080,379	4,184,807	16,768,438	70,725,390	6.59	1.56	4.36	5.92
4	Chemical Bank, New York	869,000	3,890,000	4,759,000	7,534,000	48,859,000	11.53	1.78	7.96	9.74
5	First American National Bank, Nashville, Tenn.	863,211	174,286	1,037,497	1,663,993	7,043,706	51.88	12.26	2.47	14.73
6	First Fidelity Bank NA, Newark, N.J.	832,482	926,773	1,759,255	2,974,642	12,040,071	27.99	6.91	7.70	14.61
7	National City Bank, Cleveland	678,554	26,456	705,010	1,829,062	7,273,882	37.10	9.33	0.36	9.69
8	Provident National Bank, Philadelphia	647,476	375,759	1,023,235	1,605,700	8,449,980	40.32	7.66	4.45	12.11
9	Fidelity Bank NA, Philadelphia	594,627	359,606	954,233	1,875,278	9,320,040	31.71	6.38	3.86	10.24
10	Michigan National Bank, Farmington Hills	569,769	706,875	1,276,644	2,424,439	10,024,140	23.50	5.68	7.05	12.74
11	Bank One Texas NA, Dallas	559,828	853,083	1,412,911	2,896,180	13,916,154	19.33	4.02	6.13	10.15
12	Sovran Bank NA, Richmond	523,728	1,036,980	1,560,708	2,744,159	13,983,244	19.09	3.75	7.42	11.16
13	Citizens & Southern Nat'l Bank, Ft. Lauderdale, Fla.	511,540	553,561	1,065,101	1,650,530	6,295,331	30.99	8.13	8.79	16.92
14	Maryland National Bank, Baltimore	500,323	686,256	1,186,579	1,528,599	10,827,063	32.73	4.62	6.34	10.96
15	Citizens & Southern National Bank, Atlanta	486,482	833,010	1,319,492	2,444,919	12,960,523	19.90	3.75	6.43	10.18
16	Huntington National Bank, Columbus, Ohio	408,163	896,423	1,304,586	2,218,498	8,767,805	18.40	4.66	10.22	14.88
17	Society National Bank, Cleveland	399,946	289,634	689,580	1,417,542	7,832,380	28.21	5.11	3.70	8.80
18	SouthTrust Bank of Alabama NA, Birmingham	386,783	172,851	559,634	870,559	3,449,284	44.43	11.21	5.01	16.22
19	Massachusetts Co., Inc., Boston	365,061	125,345	490,406	594,389	1,443,439	61.42	25.29	8.68	33.97
20	First Hawaiian Bank, Honolulu	330,525	15,360	345,885	1,298,494	5,053,616	25.45	6.54	0.30	6.84
21	BancOhio National Bank, Columbus	320,346	290,318	610,664	1,034,273	5,541,298	30.97	5.78	5.24	11.02
22	Citizens Fidelity Bank & Trust Co., Louisville, Ky.	313,053	1,074,095	1,387,148	1,819,751	5,912,703	17.20	5.29	18.17	23.46
23	UJB/Hackensack, N.J.	295,414	138,955	434,369	1,025,245	5,177,004	28.81	5.71	2.68	8.39
24	First American Bank of Virginia, McLean	285,865	266,428	552,293	925,728	3,868,193	30.88	7.39	6.89	14.28
25	Crestar Bank, Richmond	266,354	690,513	956,867	1,472,270	10,093,139	18.09	2.64	6.84	9.48
26	Amalgamated Bank, New York	264,019	0	264,019	1,179,738	1,573,679	22.38	16.78	0.00	16.78
27	Bankers Trust Co., New York	262,000	1,122,000	1,384,000	6,646,000	55,107,000	3.94	0.48	2.04	2.51
28	Branch Banking & Trust Co., Wilson, N.C.	259,665	28,034	287,699	1,042,060	4,338,915	24.92	5.98	0.65	6.63
29	Sovran Bank/Maryland, Bethesda, Md.	258,699	317,402	576,101	1,201,492	4,141,375	21.53	6.25	7.66	13.91
30	First Fidelity Bank NA/North Jersey, Totowa, N.J.	256,761	334,619	591,380	893,648	2,603,503	28.73	9.86	12.85	22.71
31	Old Kent Bank & Trust Co., Grand Rapids, Mich.	252,992	196,836	449,828	859,648	3,201,537	29.43	7.90	6.15	14.05
32	First Interstate Bank of Arizona NA, Phoenix	234,529	43,695	278,224	1,062,112	6,727,918	22.08	3.49	0.65	4.14
33	United States National Bank, Portland, Ore.	232,146	501,349	733,495	1,482,530	10,503,400	15.66	2.21	4.77	6.98
34	Bank One Cleveland NA	232,007	25,588	257,595	398,080	1,779,934	58.28	13.03	1.44	14.47
35	Bank One Indianapolis NA	228,898	163,907	392,805	690,822	4,068,481	33.13	5.63	4.03	9.65
36	Bank One Columbus NA, Ohio	225,600	19,936	245,536	583,238	4,188,639	38.68	5.39	0.48	5.86
37	Bank One Dayton NA, Ohio	224,140	44,514	268,654	435,827	2,389,573	51.43	9.38	1.86	11.24
38	Mellon Bank NA, Pittsburgh	210,610	520,607	731,217	2,400,343	22,471,589	8.77	0.94	2.32	3.25
39	First Fidelity Bank NA, Burlington Twp., N.J.	209,494	133,411	342,905	559,584	2,241,671	37.44	9.35	5.95	15.30
40	First Interstate Bank of California, Los Angeles	177,665	0	177,665	1,002,896	21,109,924	17.72	0.84	0.00	0.84
41	INB National Bank, Indianapolis	177,111	83,768	260,879	577,695	4,805,124	30.66	3.69	1.74	5.43
42	Ameritrust Co. NA, Cleveland	173,437	223,403	396,840	787,775	8,347,034	22.02	2.08	2.68	4.75
43	Citizens & Southern National Bank, Charleston, S.C	171,831	84,222	256,053	922,326	4,042,776	18.63	4.25	2.08	6.33
44	Sovran Bank/Central South, Nashville, Tenn.	170,995	89,266	260,261	525,881	4,035,053	32.52	4.24	2.21	6.45
45	Wilmington Trust Co., Del.	165,481	28,884	194,365	777,505	3,561,912	21.28	4.65	0.81	5.46
46	Exchange National Bank, Chicago	157,290	299,382	456,672	1,042,901	3,081,472	15.08	5.10	9.72	14.82
47	Bank One Akron NA, Ohio	157,151	42,264	199,415	345,896	1,374,680	45.43	11.43	3.07	14.51
48	Equitable Bank NA, Baltimore	152,632	240,306	392,938	889,294	4,344,342	17.16	3.51	5.53	9.04
49	Bank One Youngstown NA, Ohio	152,316	68,872	221,188	383,506	1,144,670	39.72	13.31	6.02	19.32
50	United Jersey Bank Central NA, Princeton, N.J.	152,256	30,032	182,288	457,889	2,030,788	33.25	7.50	1.48	8.98
51	Bank of New England NA, Boston	148,283	636,403	784,686	1,617,867	15,242,326	9.17	0.97	4.18	5.15
52	Sun Bank NA, Orlando, Fla.	138,978	92,362	231,340	619,993	4,278,236	22.42	3.25	2.16	5.41
53	Northeastern Bank of Pennsylvania, Wilkes-Barre	133,278	164,315	297,593	544,466	2,615,955	24.48	5.09	6.28	11.38
54	Comerica Bank-Texas, Dallas	132,779	141,179	273,958	313,291	783,527	42.38	16.95	18.02	34.96
55	Boatmen's National Bank, St. Louis	129,045	247,499	376,544	1,721,992	7,864,552	7.49	1.64	3.15	4.79
56	South Carolina National Bank, Columbia	122,705	344,945	467,650	1,006,348	6,154,851	12.19	1.99	5.60	7.60
57	American Security Bank NA, Washington, D.C.	122,020	297,491	419,511	935,595	6,005,637	13.04	2.03	4.95	6.99
58	First Interstate Bank of Denver NA	120,684	3,064	123,748	323,556	1,696,125	37.30	7.12	0.18	7.30
59	Team Bank, Dallas	120,529	447,222	567,751	1,396,413	4,700,701	8.63	2.56	9.51	12.08
60	Central Trust Co. NA, Cincinnati	119,240	315,369	434,609	759,136	3,837,596	15.71	3.11	8.22	11.33
61	Valley Fidelity Bank & Trust Co., Knoxville, Tenn.	116,717	0	116,717	166,629	505,206	70.05	23.10	0.00	23.10
62	Marine Bank, Warren, Pa.	115,858	416,054	531,912	933,811	1,843,108	12.41	6.29	22.57	28.86
63	Society Bank NA, Dayton, Ohio	111,826	22,598	134,424	489,695	2,717,814	22.84	4.11	0.83	4.95
64	Merchants Bank NA, Allentown, Pa.	110,526	195,558	306,084	609,467	1,970,758	18.13	5.61	9.92	15.53
65	First American Bank NA, Washington, D.C.	99,660	131,728	231,388	489,059	1,919,942	20.38	5.19	6.86	12.05
66	Merchants Bank, Kansas City, Mo.	98,807	21,228	120,035	210,651	1,798,173	46.91	5.49	1.18	6.68
67	Meridian Bank, Reading, Pa.	98,293	261,313	359,606	1,548,039	9,940,657	6.35	0.99	2.63	3.62
68	First Interstate Bank of Nevada NA, Reno	95,729	316,946	412,675	1,034,957	3,905,360	9.25	2.45	8.12	10.57
69	Dauphin Deposit Bank & Trust Co., Harrisburg, Pa.	94,956	141,766	236,722	940,335	2,446,295	10.10	3.88	5.80	9.68
70	First Interstate Bank of Utah, NA, Salt Lake City	93,527	61,518	155,045	334,068	975,174	28.00	9.59	6.31	15.90
71	Bank of Delaware, Wilmington	92,051	20,309	112,360	447,220	2,134,295	20.58	4.31	0.95	5.26
72	Union Planters National Bank, Memphis, Tenn.	91,618	62,563	154,181	539,978	2,434,470	1:n7	3.76	2.57	6.33
73	Union National Bank, Pittsburgh	89,215	46,998	136,213	639,992	2,399,658	13.94	3.72	1.96	5.68
74	Bank of Baltimore	89,164	568,150	657,314	861,754	3,325,741	10.35	2.68	17.08	19.76
75	Trust Company Bank, Atlanta	86,159	41,825	127,984	471,230	5,797,229	18.28	1.49	0.72	2.21
76	First American Bank of Maryland, Silver Spring	85,720	93,231	178,951	393,197	1,560,051	21.80	5.49	5.98	11.47
77	Bank One Milwaukee NA	85,075	7,398	92,473	419,631	2,522,029	20.27	3.37	0.29	3.67
78	Bank of America NT&SA, San Francisco	85,000	4,159,000	4,244,000	6,382,000	88,306,000	1.33	0.10	4.71	4.81
79	Colonial National Bank USA, Wilmington, Del.	84,913	0	84,913	131,595	1,136,237	64.53	7.47	0.00	7.47
80	United Jersey Bank/Commercial Trust, Jersey City	81,490	0	81,490	293,187	1,002,446	27.79	8.13	0.00	8.13
81	Sun Bank/Miami NA	78,727	53,738	132,465	382,414	2,122,661	20.59	3.71	2.53	6.24
82	Connecticut Bank & Trust Co. NA, Hartford	78,044	326,320	404,364	690,328	7,729,662	11.31	1.01	4.22	5.23
83	Society Bank Indiana, South Bend	75,256	7,496	82,752	114,264	580,478	65.86	12.96	1.29	14.26
84	Third National Bank, Nashville, Tenn.	74,420	27,061	101,481	343,952	2,549,324	21.64	2.92	1.06	3.98
85	Crestar Bank NA, Washington D.C.	73,999	39,061	113,060	245,096	908,888	30.19	8.14	4.30	12.44
86	Sun Bank/South Florida NA, Fort Lauderdale	72,174	69,435	141,609	558,941	2,180,903	12.91	3.31	3.18	6.49
87	First National Bank, Louisville, Ky.	67,654	10,690	78,344	566,584	4,044,193	11.94	1.67	0.26	1.94
88	Merchants Bank (North), Wilkes-Barre. Pa.	67,561	75,168	142,729	296,927	766,412	22.75	8.82	9.81	18.62
89	Summit Trust Co., N.J.	67,303	11,968	79,271	243,893	1,577,268	27.60	4.27	0.76	5.03
90	Gainer Bank NA, Gary, Ind.	66,832	63,336	130,168	534,668	1,365,507	12.50	4.89	4.64	9.53
91	State Street Bank & Trust Co., Boston	66,791	128,619	195,410	2,793,122	10,480,109	2.39	0.64	1.23	1.86
92	Premier Bank NA, Baton Rouge, La.	65,870	680,367	746,237	1,173,406	4,123,271	5.61	1.60	16.50	18.10
93	Northern Trust Co., Chicago	65,528	0	65,528	2,194,351	9,384,442	2.99	0.70	0.00	0.70
94	Hamilton Bank, Lancaster, Pa.	64,610	7,005	71,615	207,047	2,745,911	31.21	2.35	0.26	2.61
95	Bank of Hawaii, Honolulu	62,779	565,586	628,365	1,500,884	8,251,335	4.18	0.76	6.85	7.62
96	Trustmark National Bank, Jackson, Miss.	62,543	128,411	190,954	737,572	3,112,952	8.48	2.01	4.13	6.13
97	U.S. Bank of Washington NA, Seattle	61,450	163,234	224,684	495,378	5,060,655	12.40	1.21	3.23	4.44
98	City Bank, Honolulu	60,147	26,280	86,427	152,590	550,263	39.42	10.93	4.78	15.71
99	First Interstate Bank Washington, NA, Seattle	59,985	119,057	179,042	372,529	3,634,923	16.10	1.65	3.28	4.93
100	Sun Bank of Tampa Bay, Fla.	59,787	25,920	85,707	291,564	1,440,029	20.51	4.15	1.80	5.95
	Totals for the Top 100 Banks	**25,006,758**	**38,839,236**	**63,845,994**	**141,886,238**	**807,601,042**	**17.62**	**3.10**	**4.81**	**7.91**
	Totals for All Banks	**35,938,000**	**129,659,000**	**165,597,000**	**585,890,000**	**3,310,624,000**	**6.13**	**1.09**	**3.92**	**5.00**

Data Sources: The federal regulatory "Report of Condition" filed by all federally-insured commercial banks. American Banker extracted these data from **BankSource,** a data base provided by **W.C. Ferguson & Co.,** Irving, Tex. Aggregate data totals for all banks are from the **Federal Deposit Insurance Corp.,** Washington, D.C. **Collateralized Mortgage Obligations (CMOs)** are the book value of multiclass mortgage-backed securities issued by FNMA and FHLMC, where an underlying pool of mortgages held by the issuer serves as collateral for the debt obligation. The principal and interest payments from the pool of mortgages are used to retire the CMOs. **REMICS,** or real estate mortgage investment conduits, also are included. A REMIC is a mortgage securities vehicle authorized by the Tax Reform Act of 1986. The REMIC rules authorize a new entity (a REMIC) to hold commercial or residential mortgages and issue securities representing interests in those mortgages. The REMIC itself is exempt from federal income tax. The income from the mortgages held by the REMIC is taxed by the holders of the REMIC regular and residual interests. **Mortgage-Backed Securities** are the book value of holdings of certificates of participation in pools of residential mortgages that are U.S. government-issued or -guaranteed. Included are certificates of participation in pools of residential mortgages issued or guaranteed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corp. (FHLMC). **Total Securities** are the book value of securities of all types held as assets by the bank. **Total assets** are total assets of the bank, including domestic and foreign offices.

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Is Wall Street Overaggressive In Bond Pricing?

By KELLEY HOLLAND

When Continental Bank Corp. withdrew its planned debt offering last week, the Chicago-based bank became the latest in a series of banks to feel the effects of seemingly aggressive bond pricing by Wall Street firms.

Debt offerings by commercial banks appear to be getting mispriced with greater frequency, and it is making it harder than ever for new issues to come to market, according to bankers and capital markets specialists.

They say overly aggressive pricing is adding to the barriers banks face when they consider tapping the capital markets, making it even harder for them to raise new capital.

ANALYSIS: *Follow-up on the news*

"You've got a negative market on the one hand, anxious banks on another, and investment banks who are anxious for business," said a treasury official at one regional bank. "There's a certain amount of pain that's going to be shared by everybody."

Bond offerings brought as recently as late July are now trading at yields as much as 20 basis points wider relative to Treasuries than the yield at offering. Bonds issued in June by Bankers Trust Corp. at a yield 115 basis points over Treasuries are now trading at a yield about 150 basis points over Treasuries.

And last week, the proposed yield spread relative to Treasuries for the Continental offering increased 50 basis points before the bank decided to defer the issue.

"Some are done with some market reality, and some aren't," said one investment banker.

Overly Optimistic Pricing

Several factors are causing bonds to be mispriced, specialists say. First, investment bankers who work with banks are suffering from a near absence of new issue business this year, as banks who can afford to wait are staying away from the jittery capital markets.

As a result, when a bank does decide to come to market, competition is fierce for the underwriting fees that will ensue.

Investment bankers are bidding aggressively for what underwriting business there is today. And often, that aggressive bidding means telling clients that deals can get done at overly optimistic rates.

"When you get into any situa-

See **CAPITAL** *back page*

INSIDE NEWS

PEOPLE

AMERITRUST CORP. chairman and chief executive Jerry V. Jarrett resigned unexpectedly Tuesday, amid mounting loan problems and a massive restructuring. *Page 2*

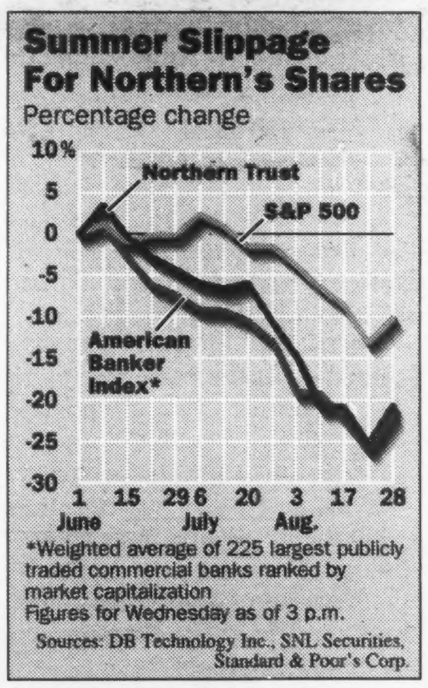
WASHINGTON

STATES SEEKING to maintain control over bank branching rights suffered another setback Tuesday when an federal appeals court reversed an earlier ruling. *Page 2*

INTERNATIONAL

AS BILLIONS of dollars flee banks in troubled Persian Gulf states, banks worldwide are bracing for a new flow of funds. Meanwhile, banks in the Persian Gulf area are being virtually locked out of international money markets by foreign banks. *Page 16*

FINANCE



SHARES OF Chicago's Northern Trust Corp. have been hit hard in the most recent period of weakness in bank stock prices. *Page 24*

CONSUMER

IN ANOTHER big thrift restructuring, Coast Savings and Loan Association said it was putting 27 of its 120 branches on the block. *Page 8*

TECHNOLOGY

UJB FINANCIAL Corp. is adding information systems that will measure the profitability of its customers and products, and the productivity of its lenders. *Page 3*

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HLTs Soar at First Chicago As Top Lenders' Total Slides

By STEVEN LIPIN

First Chicago Corp.'s portfolio of loans financing highly leveraged transactions skyrocketed by $1 billion, or 38%, in the second quarter, mostly because of the reclassification of existing loans, according to regulatory filings.

Meanwhile, Wells Fargo & Co., Bank of Boston Corp., and Security Pacific Corp. reduced their HLT credits by hundreds of millions of dollars.

Average Is Down

The total HLT portfolio of the 25 banks with the largest exposure fell by a marginal 1.7% in the second quarter, according to data compiled by SNL Securities, a publishing and data base company based in Charlottesville, Va. HLTs as a percentage of assets also fell slightly.

Where HLT lending increased, most was attributed to the reclassification of existing loans, not from booking new ones, bank officials say. Banks continue to pore through their portfolios to determine whether a loan constitutes an HLT.

Despite the new standard definition, "There's a lot of interpretation," said a senior credit official at a major bank. "It's not as straightforward as one might think."

Secondary-Market Obstacle

While equity analysts have pressed banks to reduce outstanding loans to leveraged companies, bankers say, the difficult environment for syndication has slowed loan sales to the secondary market. That has made it harder for banks to reach their goals of reducing HLT portfolios.

However, banks that sold HLT loans during the quarter booked new ones and received the up-front fees and higher interest rates, which helped the bottom line, bankers said. And the new loans were often of better quality than existing credits.

"What you're seeing is that banks are pursuing a strategy of maintaining a steady HLT portfolio," commented Christopher L. Snyder, president of Loan Pricing Corp. As some loans are sold off, others are added, he

See **HLT** *page* **21**

Gonzalez Wants Single Banking and Thrift Czar

By BARBARA A. REHM

WASHINGTON — Rep. Henry B. Gonzalez said he is planning to introduce legislation next year to merge the three deposit insurance funds and create a single regulator for banks, thrifts, and credit unions.

The House Banking Committee chairman wants to set the far-reaching regulatory reform in motion this fall with a series of hearings leading to introduction of two major bills when the 102d Congress convenes next year.

Time Pressure Seen

"I don't like to be governed by fear," the 74-year-old Texas Democrat said in a recent interview with *American Banker*. "What I fear is that time will not allow us to do the fundamental, drastic overhaul of the system required before you have a crisis."

One of the components of his drastic overhaul would be a bill revamping the deposit insurance system, which most Washington observers see as the next big financial priority on Capitol Hill. A second bill would address regulatory reform.

"There is an absolute need to completely overhaul the regula-

See **GONZALEZ** *page* **7**

3 Calif. Giants Lead Contenders For Merabank

By TERESA CARSON

LOS ANGELES — Eager to expand their Western presence, three big California banks have emerged as the top contenders to acquire the failed Merabank, the largest thrift in Arizona.

BankAmerica Corp., San Francisco, Security Pacific Corp., Los Angeles, and Wells Fargo & Co., San Francisco, are aggressively pursuing Merabank, which has 66 branches holding $4.7 billion in deposits. Though Merabank is an attractive franchise for building market share, sources said the Resolution Trust Corp. may not get a hefty premium because of Arizona's troubled economy.

Big Premium Unlikely

"The pricing will probably not be as rich as Western," said one source. Bank of America last

See **THREE** *page* **8**

Bottorff Ties the Knot that Binds Sovran to Citizens and Southern

By KENNETH CLINE

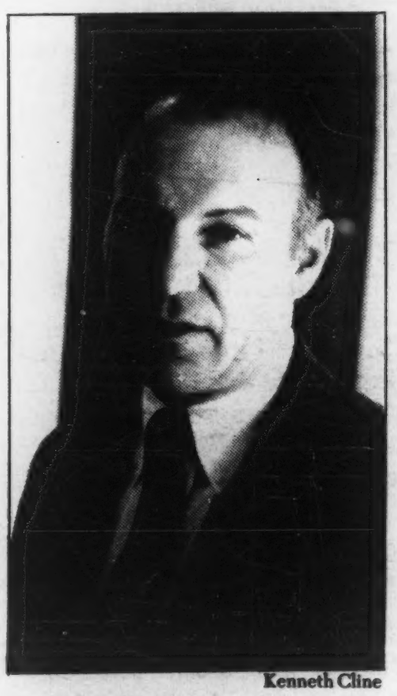
ATLANTA — When Sovran Financial Corp. and Citizens and Southern Corp. announced plans to merge last September, senior executives on both sides began describing their budding relationship with mantralike repetition.

"We're a merger of equals," they said over and over to reporters, analysts, and anyone else who would listen.

The delicate task of maintaining the equilibrium in this merger fell to Sovran's president, Dennis C. Bottorff.

Bottorff's People Skills

Mr. Bottorff, 46, has already proven his mastery as a behind-the-scenes player, particularly skilled in handling people and winning over others to his point of view. But these talents will be taxed to their limits in the



Kenneth Cline

Dennis C. Bottorff
C&S/Sovran

birthing of C&S/Sovran Corp.

The Norfolk, Va.-based

See **BOTTORFF** *page* **6**

COMMENT/*By Joseph V. Rizzi*

Coping with High Leverage: A Framework for Lenders

Spurred by relatively attractive lending spreads, financing of highly leveraged transactions has grown in recent years. Despite a relatively favorable economic climate, the number of troubled HLTs, such as Federated, Interco, and Seaman Furniture has risen. Consequently regulators, rating agencies, and shareholders are becoming concerned with bank HLT exposure.

Some commentators believe that the next recession will trigger widespread HLT defaults. Thus, they conclude that HLTs will become the banking crisis of the 1990s.

The current concerns with the HLT market do not reflect any fundamental changes in risk. Rather, they merely reflect a growing awareness of risks that have existed for several years.

The problem for banks is not with HLT lending in general but with their underwriting and portfolio practices.

Little Margin for Error

High leverage levels leave little margin for error with debtor performance problems quickly triggering a financial crisis. Consequently, correct HLT underwriting decisions are critical and involve business and financial risk.

Business risk concerns the predictability of the debtor's operating cash flows. Companies with unpredictable or volatile operating cash flows are poor HLT candidates because of their uncertain debt servicing ability. Thus, the following situations should be avoided:

Technology. Changing technology disrupts product life cycles and usually requires heavy R&D and capital expenditures, which reduce debt servicing ability. The problems caused by fax technology for Western Union illustrate this problem.

Customer Concentrations. The loss or deterioration of a major customer can seriously impact operations, as occurred at Tracor when the Defense Department reduced its expenditures.

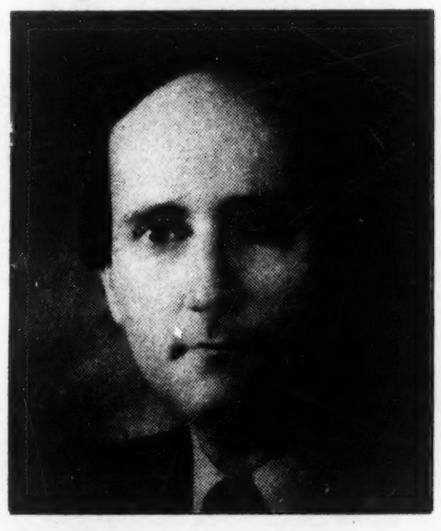
Turnarounds. Turnarounds, such as those planned in the minicomputer industry are highly uncertain and frequently take longer than planned. Consequently, operating cash flow is difficult to predict.

Commodity Products. Capacity and demand fluctuations can reduce prices below break-even, as is now taking place in newsprint and commodity chemicals.

Cyclical. Durable goods manufacturers, such as Fruehauf, are highly susceptible to unpredictable cyclical downturns.

Unsettled Management. An experienced and motivated senior management team must be in place. As Revco demonstrated, it takes too much time and money to build a new team.

The second underwriting consideration is financial risk. Financial risk considerations focus on the relationship of the debtor's expected cash flows to debt service requirements. Even companies with stable, predictable cash flows will fail if overburdened with debt. The areas of concern are as follows:



Purchase-Price Multiples. Preferred multiples are six to eight times trailing earnings before interest and taxes (EBIT). Overpriced transactions leaving the debtor in an unbalanced financial position, such as Federated at 20 times trailing EBIT, are especially suspect.

Capitalization. Transactions with multiples of funded debt to trailing EBIT exceeding six or seven times, such as Southland at more than 15 times, are difficult to justify. They simply cannot amortize their debt according to the terms without assuming operating improvements, asset sales, or refinancing. Additionally, equity capitalization should represent 20% to 30% of the capital structure to provide an adequate cushion for unexpected events.

Projected Debt Service Coverages. The credibility of projected debt service coverages is critical. Transactions based on large projected improvements in historical operating performance, such as that of Ohio Mattress, are questionable. A credibility test is to require trailing EBIT to cover first-year pro forma debt service by at least 1.5 times.

Reliance on Asset Sales. Transactions overly dependent on asset sales are suspect because of uncertainties over the price and timing of the sales. West Point-Pepperell and Interco demonstrate the risks involved when asset sales represent more than 15% of the total transaction size.

Interest Rate Risk. The high level of floating-rate debt in most HLTs exposes the debtor to interest rate risk. This is usually controlled by requiring at least 50% of the bank term debt to be fixed through swaps or caps for three to five years.

Liquidity Risk Exposure. Many recent HLTs contain bridge loans and bonds with increasing rate, reset, and payment-in-kind features. These features are designed to delay cash debt service until the debtor's operations improve or until the debtor can refinance the obligation. Some debtors are, however, facing less than projected performance results and rising debt service requirements from these features, and are unable to refinance.

Consequently, they are exposed to a serious liquidity squeeze, which has forced some firms, such as Jim Walter/Hillsborough into bankruptcy.

The profit potential in HLTs intensified bank interest in funding leveraged transactions. Some banks cut their underwriting standards to gain or maintain market share. Thus, they

"The problem is not with HLT lending in general but with underwriting and portfolio practices."

funded many poorly conceived transactions, which are currently experiencing trouble as the class of 1988-89 transactions matures.

HLT lending represents not an industry concentration but a common transaction type involving higher-than-normal leverage levels. Unlike many other problem loan areas, such as energy, developing country, and real estate loans, HLT lending is diversified across a wide number of industries.

Prudent portfolio management requires consideration of the following:

Overall Portfolio Limit. An overall portfolio maximum tied to the level of bank assets should be established, usually in the range of 2% to 5% of earning assets. As is true for other higher-risk activities, undue exposures suggest concern regarding whether the institution can absorb the risks involved.

Individual Transaction Limits. The maximum hold level in any individual transaction should be limited to between $25 million and $35 million. Syndication risk for larger commitments to be sold into the secondary market should be separately managed.

Diversification. The maximum industry exposure should not exceed 10% to 15% of the portfolio. An additional concern is geographical diversity, especially for regional banks.

Investment Instrument. Senior secured corporate debt instruments have historical recov-

See **COPING** *page* **6**

Mr. Rizzi is vice president of the leveraged capital unit of ABN/LaSalle North America Inc. He is based in Chicago.

COMMENT/*By Roger G. Powell*

Are We Caught in an Oddity Known as a Liquidity Trap?

Some don't fear the onset of recession. They are convinced that the Federal Reserve will see it coming and respond with easier money.

But there is an oddity in monetary affairs called a "liquidity trap." If we have fallen into a liquidity trap, then monetary ease will not work and interest rates may behave in an unpredictable fashion.

High-Powered Money

Easy money comes when monetary authorities provide commercial banks with plenty of raw material with which to make loans. That raw material is measured in banking-system reserves – high-powered or concentrated money. It is then diluted and packaged by banks into individual loans.

The bankers' profit motive allows us to rely on full use of the central bank's raw-material delivery and be confident that it will be diluted to the maximum allowed by reserve and capital requirements.

An Excess of Liquidity

But what happens if the commercial banks don't use the raw material? Only when banks aren't willing to lend or borrowers aren't willing to borrow does high-powered money sit unused. The economy would then have an excess of liquidity. Hence the liquidity trap.

Unusual interest rate behavior could be a side effect if a liquidity trap is operating. It seems clear that short-term rates should fall dramatically, though the risk premium might expand for each change in rating.

A Perverse Impact

What would become of longer rates? With a bond market still sensitive to potential inflationary pressures, the immediate impact might be perverse. The inventory of high-powered money available to the banking system could be seen as inflationary raw material, suggesting to investors that they should invest only at yields sufficient to offset losses of purchasing power that might arise from changes in currency values.

Effect on Yield Curve

If a liquidity trap is operating, then the near-term effect should be greater differences between short-term and long-term interest rates, at least in the short run. And greater monetary ease could fuel future inflation expectations, leading to higher, rather than lower, long-term rates.

Does the current combination of rising capital requirements, heightened regulatory discipline, asset-quality stress, and the expectation of a recession create a lineup that could lead us to this pass?

Rising capital requirements reduce the volume of loans fabricated from high-powered money. Difficult examinations and asset-quality stress lead bankers to reduce lending. And the expectation of recession influences both lender and borrower to hold back.

If banks don't lend and borrowers don't borrow, then ease won't work. A liquidity trap is, fortunately, rare and, unfortunately, perverse. □

Mr. Powell is an analyst with Alex. Brown & Sons, Baltimore.

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DEALS
HLT Loans Soar At First Chicago, Slide Generally

Continued from *page* **1**
said. "Banks are carefully managing their exposure."

At the end of the second quarter, the top 25 leveraged lenders had $68.948 billion in HLT loans outstanding, down from $70.174 billion in the first quarter. SNL did not provide data on the percentage of HLT loans that were nonperforming.

Citicorp Is No. 1

Citicorp held the largest HLT portfolio in the second quarter, $8.82 billion, although the ratio to assets was below the industry average.

Clearly, the growth of HLT portfolios slowed dramatically as the banks began to reclassify loans in February. Though federal regulators did not put limits on HLT lending, the wide range of definitions banks used persuaded regulators to define the term and require banks to classify separately all leveraged loans.

But the spigot had already been tightened by market forces, as the Campeau bankruptcy and the failed UAL Corp. buyout in October scared lenders and knocked the wind out of the market for subordinated high-yield debt.

Nevertheless, the reclassification has given bank analysts an occasion to scrutinize banks' assets more closely. Many analysts still fear that nonperforming loans could continue to rise in the banks' HLT portfolios.

And despite the increases in loan-loss provisions this year, some analysts say that HLT portfolios are not quite out of the woods yet.

"Given the number of deals in trouble or in need of restructuring, S&P expects a rough year ahead," Standard & Poor's Corp. analyst Tanya Azarchs wrote recently. "Nonperformers will rise beyond current levels, though perhaps in a bumpy fashion."

Banks are clearly in a bind

See **HLT** *next page*

Top 25 Banks in HLT Loans

Among the 400 publicly traded banks, the 25 with the largest amount of highly leveraged transaction loans outstanding on June 30, 1990, compared with March 31, 1990 (dollar amounts in millions)

HLT Rank 6/30/90	HLT Rank 3/31/90		HLT Loans 6/30/90	HLT Loans 3/31/90	Total Assets 6/30/90	Total Assets 3/31/90	HLT as a % of Assets 6/30/90	HLT as a % of Assets 3/31/90
1	1	Citicorp, New York	8,820	8,774	227,752	233,071	3.87	3.76
2	4	Bank of New York Co., Inc.	4,700	4,500	48,954	47,846	9.60	9.41
3	5	Chase Manhattan Corp., New York	4,501	4,467	102,371	106,517	4.40	4.19
4	3	Security Pacific Corp., Los Angeles	4,400	4,800	94,510	86,453	4.66	5.55
5	2	Bank of Boston Corp.	4,200	4,618	37,297	37,286	11.26	12.93
6	7	NCNB Corp., Charlotte, N.C.	3,651	3,829	66,188	63,683	5.52	6.01
7	13	First Chicago Corp.	3,600	2,600	50,361	49,992	7.15	5.20
8	6	Wells Fargo & Co., San Francisco	3,600	4,000	51,713	50,170	6.96	7.97
9	8	Bankers Trust New York Corp.	3,500	3,700	57,341	59,267	6.10	6.24
10	9	Chemical Banking Corp., New York	3,400	3,469	75,216	74,150	4.52	4.68
11	12	Manufacturers Hanover Corp., New York	3,200	2,987	63,548	59,713	5.04	5.00
12	10	J.P.Morgan & Co., Inc., New York	2,900	3,100	93,103	90,771	3.11	3.42
13	11	Continental Bank Corp., Chicago	2,700	3,000	29,532	29,026	9.14	10.34
14	14	PNC Financial Corp., Pittsburgh	2,597	2,589	47,823	46,710	5.43	5.54
15	15	BankAmerica Corp., San Francisco	2,300	2,300	103,960	101,067	2.21	2.28
16	16	First Union Corp., Charlotte, N.C.	1,675	1,622	38,385	39,084	4.36	4.15
17	18	Mellon Bank Corp., Pittsburgh	1,614	1,438	31,670	30,759	5.10	4.68
18	17	Bank of New England Corp., Boston	1,290	1,590	23,071	24,899	5.59	6.39
19	20	CoreStates Financial Corp., Philadelphia	1,241	1,191	22,766	22,239	5.45	5.36
20	19	MNC Financial, Inc., Baltimore	1,105	1,200	27,539	25,872	4.01	4.64
21	21	First Bank System, Inc., Minneapolis	828	961	19,425	20,249	4.26	4.75
22	22	Midlantic Corp., Edison, N.J.	818	855	24,231	23,744	3.37	3.60
23	24	First Interstate Bancorp., Los Angeles	789	784	55,082	57,419	1.43	1.37
24	23	Ameritrust Corp., Cleveland	776	836	11,097	10,825	6.99	7.72
25	25	U.S. Bancorp, Portland, Ore.	743	764	17,748	17,227	4.19	4.43
		TOTALS FOR THE TOP 25	**$68,948**	**$70,174**	**1,420,682**	**1,408,019**	**4.85**	**4.98**

Data Source: All HLT data provided by **SNL Securities,** Charlottesville, Va., from its data base of 400 publicly traded commercial banking companies. **HLTs** are highly leveraged transaction loans. A "purpose test" has been developed by the federal regulators to define an HLT transaction. A bank holding company is considered to be involved in a highly leveraged transaction when credit is extended or investment is made in a business where the financing transaction involves the buyout, acquisition, or recapitalization of an existing business. In addition to this purpose test, one of the following criteria must be met for the transaction to be considered an HLT: (1) the transaction at least doubles the subject company's liabilities and results in a leverage ratio (total liabilities divided by total assets) higher than 50%; (2) the transaction results in a leverage ratio higher than 75%; or (3) the transaction is designated an HLT by a syndication agent. However, the federal regulators reserve the right to designate the credit an HLT when the credit meets the purpose test but is not covered by any of the three criteria above. The regulators will include all obligations of, and claims on, HLT borrowers, regardless of perceived credit quality or secured status. **Rank 3/31/90:** HLT data for March 31, 1990, were incomplete. Therefore, a true ranking of the top 25 as of March 31 were not available. The ranks shown for March 31 were generated by American Banker using the March data for the top 25 banks on June 30. **Note:** SNL Securities tracks publicly traded companies only. Thus, the four major foreign-owned U.S. holding companies — Marine Midland Banks, Inc., Buffalo, N.Y., National Westminster Bancorp, Inc., New York, Harris Bankcorp, Inc., Chicago, and First American Bankshares, Inc., Washington, D.C. — are not included in SNL's universe of banking companies from which the top 25 banks were drawn.

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Joel Pope auct'r Lic #794209 sells on 9/6/90 9 AM at 133-04 39th Ave Qns NY '83 Caddy #1G6AL5788DE630199 Re: Chun Young Joon, GMAC; 10 AM at 5-10 Richmond Plaza Bklyn, NY '75 Chevy #1R07G52144430 Re: G. Stallings; 11 AM at 2453 Westchester Ave Bnx, NY '79 Jeep #J9M93EH830094 Re: F. Butler; 12 PM at 11-50 44th Rd Qns NY '83 Mazda #JM1FB3314D0762974 Re: F. Roblef; 1 PM at 185 Maspeth Ave Bklyn, NY '87 Plymouth #3P3BP31D3HT734850 Re: F. Flynn, New York Times Emp FCU, '87 Chrysler #JJ3CC54H1HZ032365 Re: Chrysler Financial Corp., '82 Audi #WAUGB043XCN051166 Re: T. Williams, Barclays Bank of NY, '84 Ford #1FABP0757ET189666 Re: T. Croft. Published 8/22/90 & 8/29/90.

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CORRECTION NOTICE: E.F. Fazio Auct'r Lic #798972 Sold on 8/14/90 11 AM at 1135 Webster Ave Bnx '79 Cadi #6L57B9E620395 Re: R. B. Villar. Published 8/29 & 09/05/90.

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SUPREME COURT - COUNTY OF BRONX THE GREEN POINT SAVINGS BANK Plaintiff against AIDA MARTINEZ et al Defendant(s). Pursuant to a judgement of foreclosure and sale entered herein and dated July 6, 1990. I, the undersigned Referee will sell at public auction in Room 118, Mezzanine, 851 Grand Concourse., Bronx, NY on the 11th day of September, 1990 at 11:00 AM premises beginning at a point on the south side of Watson Avenue, 244.91 feet easterly from the corner formed by the intersection of the southerly side of Watson Avenue and the easterly side of Virginia Avenue, being a plot 103.06 feet by 25 feet and known as 1946, Watson Avenue, Bronx New York. Approximate amount of lien $214,705.81 plus interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 15198/89. Dated August 14, 1990. Ira Greenberg, Referee. Cullen & Dykman Attorney(s) for Plaintiff. 233 Seventh Street, Garden City, NY 11530.

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